

REPUBLIC BANCORP INC /KY/  
Form 10-Q  
August 09, 2016  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

---

FORM 10-Q

Quarterly  
report  
pursuant to  
Section 13  
or 15(d) of  
the  
Securities  
Exchange  
Act of  
1934

For the quarterly period ended June 30, 2016

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-24649

REPUBLIC BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky  
(State of other jurisdiction of incorporation or organization)      61-0862051  
(I.R.S. Employer Identification No.)

601 West Market Street, Louisville, Kentucky      40202  
(Address of principal executive offices)      (Zip Code)

Registrant's telephone number, including area code: (502) 584-3600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.    Yes    No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).    Yes    No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer    Accelerated filer    Non-accelerated filer    Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes    No

The number of shares outstanding of the registrant's Class A Common Stock and Class B Common Stock, as of July 31, 2016, was 18,616,863 and 2,245,184.

---

Table of Contents

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

<u>Item 1. Financial Statements.</u>	3
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	69
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk.</u>	110
<u>Item 4. Controls and Procedures.</u>	110

PART II — OTHER INFORMATION

<u>Item 1. Legal Proceedings.</u>	110
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	110
<u>Item 6. Exhibits.</u>	111
<u>SIGNATURES</u>	112

Table of Contents

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 142,979	\$ 210,082
Securities available for sale	514,846	517,058
Securities held to maturity (fair value of \$36,336 in 2016 and \$39,196 in 2015)	36,181	38,727
Mortgage loans held for sale, at fair value	12,280	4,083
Mortgage loans held for sale, at lower of cost or fair value	74,430	—
Consumer loans held for sale, at fair value	6,826	—
Consumer loans held for sale, at the lower of cost or fair value	1,122	514
Loans	3,691,323	3,326,610
Allowance for loan and lease losses	(29,308)	(27,491)
Loans, net	3,662,015	3,299,119
Federal Home Loan Bank stock, at cost	28,208	28,208
Premises and equipment, net	42,956	31,106
Goodwill	16,313	10,168
Other real estate owned	1,503	1,220
Bank owned life insurance	60,986	52,817
Other assets and accrued interest receivable	46,277	37,187
<b>TOTAL ASSETS</b>	<b>\$ 4,646,922</b>	<b>\$ 4,230,289</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 867,095	\$ 634,863
Interest-bearing	1,988,952	1,852,614
Total deposits	2,856,047	2,487,477
Securities sold under agreements to repurchase and other short-term borrowings	126,124	395,433
Federal Home Loan Bank advances	987,500	699,500
Subordinated note	45,364	41,240
Other liabilities and accrued interest payable	36,864	30,092

Total liabilities	4,051,899	3,653,742
Commitments and contingent liabilities (Footnote 9)	—	—
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, no par value	—	—
Class A Common Stock and Class B Common Stock, no par value	4,906	4,915
Additional paid in capital	137,315	136,910
Retained earnings	449,487	432,673
Accumulated other comprehensive income	3,315	2,049
Total stockholders' equity	595,023	576,547
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 4,646,922</b>	<b>\$ 4,230,289</b>

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>INTEREST INCOME:</b>				
Loans, including fees	\$ 37,746	\$ 33,616	\$ 79,175	\$ 65,207
Taxable investment securities	1,983	1,779	3,875	3,552
Federal Home Loan Bank stock and other	411	327	1,105	724
Total interest income	40,140	35,722	84,155	69,483
<b>INTEREST EXPENSE:</b>				
Deposits	1,347	1,021	2,739	2,165
Securities sold under agreements to repurchase and other short-term borrowings	15	17	40	55
Federal Home Loan Bank advances	2,973	2,997	5,926	5,925
Subordinated note	228	629	439	1,258
Total interest expense	4,563	4,664	9,144	9,403
<b>NET INTEREST INCOME</b>	<b>35,577</b>	<b>31,058</b>	<b>75,011</b>	<b>60,080</b>
Provision for loan and lease losses	1,814	904	7,000	1,089
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES</b>	<b>33,763</b>	<b>30,154</b>	<b>68,011</b>	<b>58,991</b>
<b>NONINTEREST INCOME:</b>				
Service charges on deposit accounts	3,282	3,247	6,422	6,286
Net refund transfer fees	1,909	1,907	18,987	17,242
Mortgage banking income	1,560	1,224	2,821	2,577
Interchange fee income	2,217	2,044	4,340	4,238
Republic Processing Group program fees	664	169	963	397
Gain on call of security available for sale	—	88	—	88
Net gains (losses) on other real estate owned	80	(155)	328	(274)
Increase in cash surrender value of bank owned life insurance	369	353	708	702
Other	721	608	1,154	1,215
Total noninterest income	10,802	9,485	35,723	32,471
<b>NONINTEREST EXPENSES:</b>				

Edgar Filing: REPUBLIC BANCORP INC /KY/ - Form 10-Q

Salaries and employee benefits	17,814	14,323	34,897	29,600
Occupancy and equipment, net	5,109	5,142	10,528	10,343
Communication and transportation	872	771	1,945	1,817
Marketing and development	1,190	977	1,697	1,562
FDIC insurance expense	480	474	1,138	1,148
Bank franchise tax expense	647	847	3,098	3,248
Data processing	1,543	1,092	2,876	2,058
Interchange related expense	1,047	931	1,951	1,938
Supplies	240	219	689	580
Other real estate owned expense	116	120	196	339
Legal and professional fees	604	528	1,427	2,143
Other	2,204	1,741	3,965	3,463
Total noninterest expenses	31,866	27,165	64,407	58,239
INCOME BEFORE INCOME TAX EXPENSE	12,699	12,474	39,327	33,223
INCOME TAX EXPENSE	4,359	4,154	13,252	11,115
NET INCOME	\$ 8,340	\$ 8,320	\$ 26,075	\$ 22,108
BASIC EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.40	\$ 0.40	\$ 1.26	\$ 1.07
Class B Common Stock	\$ 0.37	\$ 0.37	1.14	0.97
DILUTED EARNINGS PER SHARE:				
Class A Common Stock	\$ 0.40	\$ 0.40	\$ 1.26	\$ 1.07
Class B Common Stock	\$ 0.37	\$ 0.36	1.14	0.97
DIVIDENDS DECLARED PER COMMON SHARE:				
Class A Common Stock	\$ 0.209	\$ 0.198	\$ 0.407	\$ 0.385
Class B Common Stock	\$ 0.190	\$ 0.180	0.370	0.350

See accompanying footnotes to consolidated financial statements.



Table of Contents

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 8,340	\$ 8,320	\$ 26,075	\$ 22,108
<b>OTHER COMPREHENSIVE INCOME</b>				
Change in fair value of derivatives used for cash flow hedges	(219)	175	(790)	(221)
Reclassification amount for derivative losses realized in income	86	103	173	204
Change in unrealized gain (loss) on securities available for sale	416	(1,056)	2,708	182
Reclassification adjustment for gain on security available for sale recognized in earnings	—	(88)	—	(88)
Change in unrealized gain on security available for sale for which a portion of an other-than-temporary impairment has been recognized in earnings	1	(4)	(148)	(26)
Net unrealized gains (losses)	284	(870)	1,943	51
Tax effect	(97)	304	(677)	(18)
Total other comprehensive income, net of tax	187	(566)	1,266	33
<b>COMPREHENSIVE INCOME</b>	<b>\$ 8,527</b>	<b>\$ 7,754</b>	<b>\$ 27,341</b>	<b>\$ 22,141</b>

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2016

(in thousands)	Common Stock Class A Shares Outstanding	Class B Shares Outstanding	Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, January 1, 2016	18,652	2,245	\$ 4,915	\$ 136,910	\$ 432,673	\$ 2,049	\$ 576,547
Net income	—	—	—	—	26,075	—	26,075
Net change in accumulated other comprehensive income	—	—	—	—	—	1,266	1,266
Dividends declared Common Stock:							
Class A Shares	—	—	—	—	(7,579)	—	(7,579)
Class B Shares	—	—	—	—	(831)	—	(831)
Stock options exercised, net of shares redeemed	4	—	—	80	—	—	80
Repurchase of Class A Common Stock	(41)	—	(9)	(274)	(851)	—	(1,134)
Net change in notes receivable on Class A Common Stock	—	—	—	2	—	—	2
Deferred director compensation expense -	4	—	—	100	—	—	100

Class A  
Common Stock

Stock based compensation expense - performance stock units	—	—	—	254	—	—	254
Stock based compensation expense - restricted stock	(2)	—	—	117	—	—	117
Stock based compensation expense - stock options	—	—	—	126	—	—	126
Balance, June 30, 2016	18,617	2,245	\$ 4,906	\$ 137,315	\$ 449,487	\$ 3,315	\$ 595,023

See accompanying footnotes to consolidated financial statements.

Table of Contents

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended	
	June 30,	
	2016	2015
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 26,075	\$ 22,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization on investment securities, net	279	380
Accretion on loans, deposits and core deposit intangible, net	(1,301)	(1,649)
Depreciation of premises and equipment	3,465	3,251
Amortization of mortgage servicing rights	683	716
Provision for loan and lease losses	7,000	1,089
Net gain on sale of mortgage loans held for sale	(2,560)	(2,353)
Origination of mortgage loans held for sale	(95,787)	(96,008)
Proceeds from sale of mortgage loans held for sale	90,150	94,472
Net gain on sale of consumer loans held for sale	(839)	(246)
Origination of consumer loans held for sale	(129,027)	(24,410)
Proceeds from sale of consumer loans held for sale	122,432	23,114
Net realized gain on sales, calls and impairment of securities	—	(88)
Net gain realized on sale of other real estate owned	(328)	(430)
Writedowns of other real estate owned	—	704
Deferred director compensation expense - Company Stock	100	109
Stock based compensation expense	497	203
Increase in cash surrender value of bank owned life insurance	(708)	(702)
Net change in other assets and liabilities:		
Accrued interest receivable	(174)	(131)
Accrued interest payable	12	(55)
Other assets	211	(1,859)
Other liabilities	(2,731)	581
Net cash provided by operating activities	17,449	18,796
<b>INVESTING ACTIVITIES:</b>		
Net change in cash for acquisition of Cornerstone Bancorp, Inc.	(9,088)	—
Purchases of securities available for sale	(390,079)	(889,325)
Proceeds from calls, maturities and paydowns of securities available for sale	394,575	868,424
Proceeds from calls, maturities and paydowns of securities held to maturity	2,866	2,342
Net change in outstanding warehouse lines of credit	(199,348)	(169,474)
Purchase of non-business-acquisition loans, including premiums paid	(47,986)	(63,163)
Net change in other loans	(7,726)	(48,458)
Proceeds from redemption of Federal Home Loan Bank stock	224	—
Proceeds from sales of other real estate owned	1,727	7,009
Net purchases of premises and equipment	(3,088)	(2,507)
Net cash used in investing activities	(257,923)	(295,152)

FINANCING ACTIVITIES:

Net change in deposits	163,899	221,428
Net change in securities sold under agreements to repurchase and other short-term borrowings	(269,309)	(126,283)
Payments of Federal Home Loan Bank advances	(207,000)	(208,000)
Proceeds from Federal Home Loan Bank advances	495,000	417,000
Repurchase of Common Stock	(1,134)	(327)
Net proceeds from Common Stock options exercised	80	119
Cash dividends paid	(8,165)	(7,693)
Net cash provided by financing activities	173,371	296,244

NET CHANGE IN CASH AND CASH EQUIVALENTS	(67,103)	19,888
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	210,082	72,878
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 142,979	\$ 92,766

SUPPLEMENTAL DISCLOSURES OF CASHFLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 9,115	\$ 9,458
Income taxes	12,771	6,130

SUPPLEMENTAL NONCASH DISCLOSURES:

Transfers from loans to real estate acquired in settlement of loans	\$ 1,938	\$ 1,922
Transfers from loans held for investment to held for sale		